

## **EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES**

<b>Committee:</b>	Audit & Governance Committee	<b>Date:</b>	Monday, 25 November 2019
<b>Place:</b>	Council Chamber, Civic Offices, High Street, Epping	<b>Time:</b>	7.00 - 8.05 pm
<b>Members Present:</b>	J Knapman, I Hadley, R Jennings and B Vaz		
<b>Other Councillors:</b>	A Patel, C Whitbread and H Whitbread		
<b>Apologies:</b>	N Nanayakkara and S Heap		
<b>Officers Present:</b>	S Marsh (Chief Internal Auditor), N Dawe (Interim Strategic Director & Chief Financial Officer), S Linsley (Senior Auditor), M Hone (Interim Chief Accountant), G Woodhall (Senior Democratic Services Officer) and A Hendry (Senior Democratic Services Officer)		
<b>Also in attendance:</b>	C Wisdom (External Auditor)		

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### **17. WEBCASTING INTRODUCTION**

The Chairman made a short address to remind everyone present that the meeting would be broadcast live to the internet, and would be capable of repeated viewing, which could infringe their human and data protection rights.

### **18. DECLARATIONS OF INTEREST**

There were no declarations of interest pursuant to the Council's Code of Member Conduct.

### **19. MINUTES**

#### **Resolved:**

- (1) That the minutes of the meeting held on 12 September 2019 be taken as read and signed by the Chairman as a correct record.

### **20. MATTERS ARISING**

There were no matters arising from the minutes of the previous meeting for the Committee to consider further.

### **21. AUDIT & GOVERNANCE COMMITTEE - WORK PROGRAMME**

The Committee noted its Work Programme for 2019/20.

The Chairman felt that Planning Services were not examined sufficiently by the Internal Audit team, and whether Planning Services were providing value for money from their services. The Chairman highlighted three areas that, in his view, should be examined:

- (i) applicants having to pay to speak to a Planning Officer about a pre-planning application – was it working as intended;
- (ii) were the delegated authorities to Planning Officers working, as they appeared to leave the decision for each application until the very last permissible day; and
- (iii) reassurance that the Council had enough capacity in Planning Services as Planning Officers appeared to respond very slowly to queries.

Councillor R Jennings requested that reassurance be given about the Council's Enforcement team as well, whilst Councillor Hadley asked what information could be presented to Councillors – especially regarding planning applications in their ward.

The Chief Internal Auditor informed the Committee that the Corporate Governance Group would consider how to provide the necessary assurances to the Committee.

## **22. AUDIT & GOVERNANCE COMMITTEE - REVIEW OF TERMS OF REFERENCE & EFFECTIVENESS**

The Chief Internal Auditor presented a report on a review of the Committee's Terms of Reference and the effectiveness of the Committee.

The Chief Internal Auditor reminded the Committee that an effective Audit Committee brought many benefits to an organisation and, to ensure that the Council continued to provide an effective Audit & Governance Committee, a review of the Committee's Terms of Reference should be undertaken on an annual basis. The review of the Committee's Terms of Reference undertaken by the Chief Internal Auditor had highlighted two additions to reflect the Group Company structure being set up by the Council and to encompass any future changes to the provision of internal audit services.

The Chief Internal Auditor again reminded the Committee that the effective operation of an Audit & Governance Committee formed a key element of the Council's assurance network. A self-assessment was undertaken by the Chief Internal Auditor to review the effectiveness of the Committee, and this showed that the Council could demonstrate compliance with the recommended best practice for an effective Audit Committee. Two minor weaknesses had been identified: a skills and knowledge analysis should be repeated, as the previous analysis had been undertaken in September 2017; and the engagement of the Committee directly with the responsible Managers when discussing governance, risk or control issues. An Action Plan had been developed to address these minor weaknesses identified from the Effectiveness review.

The Chairman commented that it was important for the Committee to be given assurances about the risks involved with the Group Company structure being set up. It was important for the Committee to receive reports from these companies regarding what activities they were undertaking, what their financial position was, and what were their risks. Councillor R Jennings advised the Committee that the Overview & Scrutiny Committee had examined the Group Company structure at its recent meeting, and would get regular updates in the future - although this could create conflict or duplication between the two Committees. The Chief Internal Auditor reassured the Committee that it could place reliance on the reports from Internal and External Audit, as well as examining the risk registers of the Group

companies; there was a plethora of measures that the Committee could examine to reassure themselves.

Following the recent resignation of the Committee's second co-opted member, the Chief Internal Auditor stated that the Council would soon be advertising again for replacements.

**Resolved:**

- (1) That the proposed changes to the Committee's Terms of Reference be recommended to the Council for approval, following consideration of the changes by the Constitution Working Group; and
- (2) That the results of the review of the effectiveness of the Committee be noted; and
- (3) That the proposed Action Plan for improvement arising from the review of the effectiveness of the Committee be agreed.

**23. RISK MANAGEMENT**

The Chief Internal Auditor introduced a report on Risk Management within the Council.

The Chief Internal Auditor stated that the views of the Committee were being sought as to whether there were any new or emerging risks that had not been included on the current Corporate Risk Register, or whether there were any changes to the existing risks that should be considered. The views of the Committee would be considered at the next meeting of the Officer Risk Management Group.

The Chief Internal Auditor informed the Committee that the current format of the Corporate Risk Register was based on an established model and was understood by Officers and Members. However, a new Risk Register template was being trialled with Service Directors based on best practice, which had a number of advantages including the better articulation of risks using an 'if-then' format and the use of colour coding to focus attention on the highest risks. The Committee was being requested to endorse the future use of this new format for the Corporate Risk Register.

The Chief Internal Auditor highlighted that it was best practice for the review of the Corporate Risk Register and subsequent recommendation of amendments to the Cabinet to be undertaken by this Committee, and not the Finance & Performance Management Cabinet Committee as at present. The views of the Chairmen of both Committees had been sought and they had concurred with this proposal. If the Committee was in agreement with this proposal, then a report would be submitted to the next meeting of the Constitution Working Group on 12 March 2020 prior to obtaining the approval of the Council. It was intended for the Audit & Governance Committee to review the Corporate Risk Register on a quarterly basis, with further in-depth reviews of individual risks.

The Chairman stated that Climate Change had been highlighted as the number one priority at Council, but it was not included in the Corporate Risk Register. The Council's impact on Climate Change within the District should be given some consideration. In addition, the Local Plan was due to be adopted nine years after its original implementation date, and the Council should be asking how it could prevent this situation happening again.

Councillor Hadley asked why the Transformation Programme had been removed from the Corporate Risk Register? The Chief Internal Auditor responded that the Transformation Programme had been a huge risk when it had started, but had now been broken down into different areas such as the People Strategy and the Accommodation Strategy. Consequently, the risks were now being dealt with at an operational level and the corporate level risk had been removed.

Councillor Hadley also pointed out that there was no corporate risk in relation to the establishment of the new group company, Qualis. However, the Chief Internal Auditor reassured the Committee that the risk register for the establishment of the new group company would be considered at the next meeting of the Risk Management Group.

**Resolved:**

- (1) That the Officer Risk Management Group be requested to consider Climate Change and the establishment of the new Group Company, Qualis, as new or emerging risks for inclusion on the Corporate Risk Register;
- (2) That the proposal to enhance the Committee's Risk Management responsibilities be recommended to the Council for approval, following consideration of the issue by the Constitution Working Group; and
- (3) That the proposal to revise the format of the Corporate Risk Register be endorsed.

**24. INTERNAL AUDIT MONITORING REPORT - SEPTEMBER TO NOVEMBER 2019**

The Chief Internal Auditor presented the Internal Audit Monitoring report for the period September to November 2019.

The Chief Internal Auditor reported that three reports had been issued since the Committee's last meeting on 12 September 2019. The report on Disabled Facilities Grants had been issued with moderate assurance, and the report on Homelessness had been issued with substantial assurance. The third report was a review of Payroll HM Revenues and Customs and BACS payment processes, following three separate incidents. A Management Action Plan, which included four recommendations, had been raised to minimise the risk of such incidents occurring again, and the implementation of these recommendations would be followed up through the standard Internal Audit Recommendation Tracker process.

The Chief Internal Auditor stated that good progress had also been made with the 2019/20 Audit Plan, and the timings of the audits had been agreed with the Leadership Team to ensure a timely flow of reports throughout the year. However, the Audit Recommendation Tracker was showing the number of overdue audit recommendations increasing, with 13 currently past their due date. The overdue High Priority recommendation related to the Business Continuity Planning Project. In other activities, the Internal Audit team was working with Business Services in reviewing Officer delegated authorities, and the Officer Risk Management Group had reconvened to review risks at both the Corporate and Service level. The Group Company and Accommodation Project Risk Registers had also been reviewed prior to their consideration by the Risk Management Group.

The Chief Internal Auditor highlighted the following achievements by the Corporate Fraud Team, since the previous meeting of the Committee:

- (i) five Right-to-Buy applications had been stopped resulting in a discount saving of £414,000 and a potential ongoing rent stream of approximately £260,000;
- (ii) two properties had been recovered from investigations into tenancy related fraud, saving the Council approximately £186,000;
- (iii) a Proceeds of Crime award in the sum of £50,000 arising from a previous investigation was due to be shortly received; and
- (iv) National Fraud Awareness week had been from 17 to 23 November 2019, and the Team had organised a series of activities.

The Chief Internal Auditor informed the Committee that the Council's Anti-Fraud & Corruption Strategy had been revised, to include the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017. The Committee was requested to agree the revised Strategy and recommend its adoption by the Council. Finally, the Chief Internal Auditor outlined the progress that had been made with the issues identified for improvement during the current municipal year in the Annual Governance Statement.

The Committee was concerned with delays for the Business Continuity Project, as it illustrated the Council's previous casual approach to Business Continuity. Business Continuity was very important for the Council, and all of the key players should be involved. The Chief Internal Auditor acknowledged the Committee's concerns and drew the Committee's attention to the progress update on the project from the Commercial & Regulatory Service Director that had been included within the Committee's agenda papers.

**Resolved:**

- (1) That the progress made against the Internal Audit Plan for the period September to November 2019 be noted; and
- (2) That the revised Anti-Fraud & Corruption Strategy be agreed, and recommended to the Council for approval.

**25. ANY OTHER BUSINESS**

**Resolved:**

- (1) That, in accordance with Section 100B(4)(b) of the Local Government Act 1972, the following items of urgent business be considered following the publication of the agenda:
  - (a) Treasury Management & Prudential Indicators – Mid-Year Report 2019/20;
  - (b) Final Accounts Improvement Plan; and
  - (c) Update from the External Auditor.

**26. TREASURY MANAGEMENT & PRUDENTIAL INDICATORS - MID-YEAR REPORT 2019/20**

The interim Chief Accountant presented the mid-year report on the Council's

Treasury Management function and Prudential Indicators for 2019/20.

The interim Chief Accountant reminded the Committee that the mid-year report was a requirement of the Council's reporting procedures to comply with the Code of Practice on Treasury Management issued by the Chartered Institute of Public Finance & Accountancy (CIPFA). The report covered the Council's treasury activity for the first half of the financial year 2019/20, and the associated risks as well as with how these risks were managed during the year.

The interim Chief Accountant reported that, overall, the Council had managed its Treasury Management function within the previously agreed parameters, and had continued to finance its Capital Programme through the use of internal resources. The five-year Capital Programme was forecasted to be £97million, which would be partly financed by £8million of external borrowing. By the end of this period, the Capital Receipts Reserve was predicted to be £3.9million and the Major Repairs Reserve was predicted to be £500,000. The Committee noted that the Council had £18.3million under investment as at 30 September 2019, and the average net investment position had been approximately £11.75million. The Council did not breach any of the Treasury Prudential Indicators during the first half of the 2019/20 financial year.

The Committee welcomed the continuation of the prudent approach that the Council had traditionally taken toward borrowing, and the operation of the Council's Treasury Management function.

**Resolved:**

- (1) That the mid-year progress report on the Council's Treasury Management function and the Prudential Indicators for the first half of the 2019/20 financial year, and the management of the risks therein, be noted; and
- (2) That none of the Prudential Indicators had been breached during the first half of the 2019/20 financial year be noted.

**27. FINAL ACCOUNTS IMPROVEMENT PLAN**

The interim Chief Accountant presented a report on the Final Accounts Improvement Plan.

The interim Chief Accountant reminded the Committee that the conditional report issued by the Council's External Auditors, Deloitte, on 6 September 2019 highlighted several weaknesses in the arrangements for the preparation of the Statutory Statement of Accounts and supporting working papers. Although at that time, there was yet to be found any significant misstatement in the Accounts, a final view could not be given by the External Auditor until all matters had been resolved. These weaknesses were due to many factors that had subsequently been immediately resolved as part of an on-going improvement programme by the Finance Department. There were proposals to further improve the process of Final Account preparation for 2019/20 and subsequent years.

The interim Chief Accountant reported that significant improvements had already been made and none of the planned improvement actions was either late or incomplete at this stage. Further improvements were planned, including the conducting of a dummy Account Closure exercise in January 2020, for the first nine months of the 2019/20 financial year. Additional improvements would also take place

before the end of the financial year, and these activities were taking place as part of a continuous improvement approach in consultation with our External Auditors. Appropriate measures were now in place to ensure all procedure and approaches were well understood by other permanent members of the Accounting Team, and the permanent post holders for the Technical Accounting Team Leader and the Accounting Team Manager roles when appointed.

The Chairman pointed out that the Committee had previously raised concerns about capacity issues and changeover procedures within the Accounts Team. The Council had clearly learnt some very important lessons and now had documentation available for the future. However, the Chairman also highlighted that the External Auditor's report indicated that there were still some issues to be resolved, and in some ways contradicted the Officer's report. The interim Chief Accountant reassured the Committee that the Action Plan had been approved by the External Auditor and that the fundamental financial position of the Council was not in doubt, just the process of producing the Final Accounts. The External Auditor added that they expected to receive responses to the eight outstanding key issues listed in the report within the next two weeks and to be in a position to close the Final Accounts in December.

The Committee welcomed the fact that the Council had recognised the problem and was working to resolve the issues. Councillor R Jennings was surprised that no warnings were sounded when five Senior Finance Officers left the Council within a short space of time, and also wanted to know the cost to the Council from having to implement the Improvement Plan. The Chairman also wanted assurances that if key Finance Officers left the Council in the future then the same problems would not occur. The interim Chief Accountant reminded the Committee that there were several different reasons as to why five Senior Finance Officers left the Council within a short space of time. The Accounts Team was currently codifying all of the Final Accounts processes, including how to produce the supporting working papers. The interim Chief Accountant undertook to respond to the Committee in writing regarding the cost to the Council of implementing the Improvement Plan.

The interim Strategic Director added that it was important to keep to the schedule within the Improvement Plan, and the Committee requested that Officers attend future meetings of the Committee to provide an explanation if any of the target dates were not kept to in the future.

**Resolved:**

- (1) That the improvement plan, attached as an Appendix to the report and providing an overview of key areas of improvement and the approach being taken to deliver the improvement, be noted;
- (2) That all improvement actions were currently on schedule and were associated with resolving issues in respect of the 2018/19 accounts as well as preparing for future final accounts be noted;
- (3) That the significant contribution made by the lead Technical Team Leader in both completing the accounts and authoring and delivering the Improvement Plan be noted;
- (4) That the improvements were being delivered within current establishment, and by an Officer who was an interim be noted;

(5) That the planned improvements were well documented and a planned exchange of knowledge and procedures would occur in respect of existing and new permanent staff be noted; and

(6) That the scheduled target dates within the Improvement Plan were expected to be adhered to, with the explanation for any missed target dates to be reported back to the Audit & Governance Committee.

**28. UPDATE FROM THE EXTERNAL AUDITOR**

The External Auditor had provided updates to the Committee as part of the previous item on the agenda, and there was nothing further to discuss.

**29. EXCLUSION OF PUBLIC AND PRESS**

The Committee noted that there was no business which necessitated the exclusion of the public and press from the meeting.

**CHAIRMAN**